

Message Text

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16

ACTION PM-03

INFO OCT-01 EUR-12 ISO-00 MC-02 EB-07 COME-00 TRSE-00

OMB-01 IGA-01 CIAE-00 H-02 INR-07 L-02 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 AID-05 /073 W

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P R 091000Z APR 75

FM AMEMBASSY BELGRADE

TO SECSTATE WASHDC PRIORITY 2483

INFO SECDEF WASHDC

US ARMY MATERIAL CMD, WASHDC

USCINCEUR, VAIHINGEN GE

C O N F I D E N T I A L BELGRADE 1711

SEC DEF FOR ASD/ISA AND DSAA: CINCEUR FOR J4/7

E.O. 11652: GDS

TAGS: MASS YO

SUBJ: SALE OF 8" AMMUNITION TO YUGOSLAVIA (FMS CASE YU-UDF)

REF: BELGRADE 1563

1. I CALLED ON COL. GEN. MILOS SUMONJA, DEPUTY FEDERAL SECRETARY OF NATIONAL DEFENSE, ON APRIL 7 AT HIS REQUEST.

2. AS EXPECTED, SUMONJA WANTED TO DISCUSS THE SUBSTANTIAL INCREASE IN COST OF 7,500 ROUNDS OF EIGHT-INCH (203MM) AMMUNITION. HE STATED THAT THE GOY HAD CONCLUDED A CONTRACT FOR THIS AMMUNITION ON APRIL 30, 1973 IN AMOUNT OF \$716,534, OF WHICH ONE-HALF IMMEDIATELY PAID AS DEPOSIT. AT THIS POINT, IT BECAME NECESSARY TO CONDUCT TECHNICAL TESTS WHICH, AFTER CONSIDERABLE DELAY, HAVE NOW BEEN SATISFACTORILY COMPLETED. ACCORDING TO THE GOY'S READING OF THE CONTRACT, THE AMMUNITION SHOULD NOW BE DELIVERED BUT WHEN THE GOY NOTIFIED THE ARMY MATERIAL COMMAND (AMC) THAT THE OFFERED AMMUNITION WAS ACCEPTABLE AND REQUESTED DELIVERY, IT WAS INFORMED THAT THE COST HAD RISEN NEARLY 70 PERCENT (BY GOY ESTIMATION).

THE JNA FEELS THAT THIS PRICE INCREASE IS OUT OF LINE FOR THE

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FOLLOWING REASONS:

- A. THE AMMUNITION IN QUESTION IS FROM OLD (1972) STOCKS.
- B. IT WAS NOT SPECIFICALLY MADE FOR GOY, IE., IT IS FROM STANDARD PRODUCTION STOCKS.
- C. IT WAS NOT PRODUCED UNDER PRESENT DAY ECONOMIC CONDITIONS BUT RATHER THOSE THAT EXISTED IN 1972.
- D. THE RATE OF INFLATION IN THE US HAS BEEN ABOUT 12.5 PERCENT, NOT THE 70 PERCENT REFLECTED IN THE RAISE IN PRICE OF THE AMMUNITION.
- E. THE GOY IMMEDIATELY PAID 50 PERCENT DOWN ON THE ORIGINAL CONTRACT .
- F. GOY HAS ANALYZED THAT, IN SOME CASES, PRICES SHOULD GO DOWN ON STATESIDE STOCKS (THIS WAS NOT EXPLORED FURTHER).

3. SUMONJA EXPRESSED OPINION THAT THE ECONOMIC ASPECTS OF THE SALE COULD NOT OF THEMSELVES JUSTIFY SUCH A SUBSTANTIAL PRICE INCREASE. HE THEREFORE QUESTIONED WHETHER IT SHOULD BE EXPLAINED BY POLITICAL RATHER THAN ECONOMIC REASONS. PERHAPS, HE SPECULATED, THE USG DOES NOT WANT TO SELL THE AMMUNITION TO THE GOY AND HAS RAISED THE PRICE TO STOP THE SALE.

4. WITHOUT BACKGROUND ON CASE, AND IN ABSENCE OF REPLY TO EMBTEL 1563 I COULD NOT TAKE ISSUE WITH SUMONJA'S VERSION OF FACTS. I ASSURED HIM, HOWEVER, THAT WHATEVER THE REASONS FOR THE PRICE INCREASE WERE, THEY WERE EMPHATICALLY NOT POLITICAL IN NATURE. THE RECENT VISITS OF ASSISTANT SECRETARY ELLSWORTH TO YUGOSLAIVA AND PREMIER BIJEDIC TO THE US HAD DEMONSTRATED THE INCREASINGLY FAVORABLE DEVELOPMENT OF OUR BILATERAL RELATIONS. I DID POINT OUT THAT UNDER THE MILITARY SALES ACT OF 1968, THE USG COULD NEITHER PROFIT NOR INCUR A LOSS ON MILITARY SALES AND PERHAPS THE REPLACEMENT COST OF THE AMMUNITION OR SIMILAR FACTORS MAY HAVE INFLUENCED THE PRICE INCREASE. IN ANY CASE, I ASSURED SUMONJA THAT I WOULD INQUIRE ABOUT THE RATIONALE BEHIND THE INCREASES, REITERATING THAT THE PROBLEM WAS NOT POLITICAL.

5. I WOULD LIKE TO BE ABLE TO GIVE SUMONJA REASONS FOR PRICE INCREASE AND RESPOND TO HIS SPECIFIC POINTS IN PARA 2 ABOVE SOONEST. WHILE ADMITTEDLY NOT BEING PRIVY TO BACKGROUND, I DO FEEL THAT ON BASIS POINTS PRESENTED BY SUMONJA, WE HAVE TREATED YUGOSLAVS IN RATHER CAVALIER AND EVEN SHABBY WAY. I AM CONCERNED THAT YUGOSLAVS MAY REGARD THE HANDLING OF THIS CASE TO DATE AS ANOTHER INDICATION OF UNRELIABILITY AND INCONSISTENCY OF US AS MILITARY
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SUPPLIER, JUST WHEN INITIAL PROGRESS HAS BEEN MADE IN IMPROVING MILITARY RELATIONS.
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Message Attributes

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